

**Access to Microfinance & Improved Implementation of Policy Reform
(AMIR Program)**

Funded By U.S. Agency for International Development

**Market Research/Background Survey
For the establishment of Credit Bureau in Jordan**

Final Report

**Deliverable for SMI Component
Task No. 3.3.3 – Credit Bureau – Local Market Research
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This report was prepared by Larry Ulrich Consultant, for Chemonics International Inc., prime contractor to the U.S. Agency for International Development for the AMIR Program in Jordan.

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Executive Summary

The finding of this consultancy supports the establishment of a Credit Bureau in Jordan. It is recommended that the model include:

- A private enterprise with a possible US credit bureau partner.
- The file will contain both consumer and commercial information.
- The file will contain both positive and negative information.
- The national ID number will be the primary identifier.
- The information will be available to all credit providers.
- The headquarters will be located in Amman.

The next steps would include a survey to determine the number of transactions and the size of the initial file and a final determination as to how to improve the legal climate.

Market Research/Background Survey For the establishment of a Credit Bureau in Jordan

Introduction

The idea of a credit bureau being established in Jordan was widely accepted during our visits to various credit providers (Appendix 1) At each meeting we addressed a common set of questions contained in (Appendix 2). Without exception each credit provider was not only in favor of a credit bureau but thought the establishment of such was long overdue. Many recognized that the traditional lending practices would have to be reviewed and relaxed as competition from both local and foreign lenders pursue the potential increase in the demand for credit, especially in the retail and small business loan sectors. In general, the lenders were very supportive and were looking forward to being able to access credit information from one source, which would help bring down their cost of operation. They also felt that a well managed reliable and ethical credit bureau would help them make credit decisions more rapidly and would also help to minimize credit risk.

Current Sources of Data

Currently, The Central Bank of Jordan houses The Credit Risk Bureau which keeps which information on loans over JD30000. This information is provided monthly by banks only and is shared with banks only. The Central Bank has plans to exchange this information with the banks electronically in the near future. Unfortunately, the information is limited. The database contains only the customer name, the original loan amount(s), and the current balance(s). There is no information as to whether the loan(s), is delinquent. Although helpful, the data has limited application.

The Jordan Loan Guarantee Corp. Ltd. is a relatively new company that, under certain circumstances, guarantees bank loans. An extensive credit investigation is conducted on each applicant and is stored electronically for future reference. Currently the company claims to have 75,000 files on both consumers and companies of which 2,000 are active loans. Their database contains public record information as well as other credit data from banks and informal lenders.

Within the retail sector of the Jordan economy, there are many informal lenders. These lenders are made up of appliance dealers, home furnishing dealers and many other such retail markets. Usually, each retailer does some limited background investigation using “personal sources”, on the credit worthiness of the customer, but most generally relies on the reputation of the family name. The customer is required to put down 50% of the total price and gives the retailer post dated checks for the balance. The balance is usually paid out in less than twelve months. Sometimes the retailer takes the checks to the bank,

which discounts the value and gives the retailer cash. Any defaults are the responsibility of the retailer. The informal lending activity has great potential transaction volume for the new bureau and is a source of credit histories.

The Bankers Association currently maintains a “blacklist” of bad check passers. The banks provide the names. Once a check has “bounced” three times the name is added to the list and will be removed after three years if there is no more instances of bad checks. However, there is some concern as to the reliability of the list.

Technology

The technology infrastructure seems to be in place amongst the commercial banks and other more sophisticated lenders. All of the banks interviewed are currently exchanging data electronically with their branches and soon with the Central Bank. The problem will be sending and receiving information with the informal lenders. Entering this manual data in the new bureau will be very time consuming and expensive.

Legal Concerns

One of the most common concerns the credit providers brought to our attention was the potential legal problem associated with the exchange of credit information. The Bank Secrecy Law and other such regulations were most often mentioned as impediments to the free flow of credit information between all types of credit providers. The regulations are not clear if direct exchange between banks is allowed, if other entities can participate or if it is permissible to establish a credit bureau. Phase 1 of the Scope of Work deals with the legal ramifications of the law. Some of the lenders thought it might be a good idea to require, at the very least, the banks and other major lenders to provide credit information on a timely basis and to use the services. This probably could not be accomplished without government involvement, which should be avoided. The law firm of International Business Legal Associates will present their report, but the prospects for solving the legal concerns looks promising.

Organization/Design of Jordan Credit Bureau

One of the questions that we asked all the credit providers and everyone else we interviewed, including the Deputy Governor of the Central Bank, was how this credit bureau should be organized. Everyone agreed that the new organization should be established in the private sector with no government involvement. There seemed to be a lot of interest in who the investors might be. Most everyone thought that the participation of one of the three bureaus in the US would be a good idea. Perhaps some kind of incentive could be offered to the potential investor(s) in the new organization that would help defray some of the start up costs. This has worked effectively in other international bureau start-ups when one of the US firms is involved. One of the concerns expressed,

was who would regulate this new private company. The concern is that the new entity could wind up under government control since the new credit bureau will have to be registered under The Minister of Trade and Industry. The legal review will address this issue.

The Jordan Credit Bureau should house data on both consumers and commercial organizations. In the States, there are two separate credit bureaus for these functions, however it is entirely possible for this new credit bureau to handle both and should enhance its economic feasibility.

The new database should contain both positive and negative information. Including positive data will help position the bureau to offer other types of credit related services such as direct marketing and mailing lists. Other possible services include a check verification service, payroll processing, employment screening reports, a collection agency, drivers license database, or a title search company.

The national identification number should be used as the primary access path to the database as well as the name and address.

Management of the operation should be someone, who has a strong background in accounting and credit, is very “visible” and not connected to the government. The operations center and headquarters should be located in Amman but it would be helpful to locate sales and service offices in other major cities.

The new bureau should provide not only consumer and commercial reports but also reports for home mortgages, cars, employment, apartment rentals, insurance appliances and furnishings and leasing programs.

Market/Public Awareness Efforts

To aid in the credibility of the establishment of a credit bureau, a statement of commitment to the project from someone very high up in the government was extremely important. This would also put on notice both the credit providers and the general public that the project was going to happen. Perhaps the Bankers Association could be the organization to help spearhead this government announcement.

Consider launching a public awareness program while building the database. This could help alleviate some of the cultural concerns about confidentiality and the role of the credit bureau. If the consuming public can be convinced that the bureau will help them achieve a better standard of living, this will go a long way towards the economic success of the project. The public has to believe that the bureau will only report factual credit information about them and that only those with a legal purpose can have access to the information.

An education program will need to be developed to train the credit providers how to read a credit report and to use the information correctly to make sound credit decisions. If the providers can reach a comfort level using the report and see that it can help them manage their risk, they will be more apt to use the bureau. The training will be very important to the success of the project. Training will be a huge undertaking and might be coordinated with the training of the staff of the credit bureau. Staff training would be easier if the bureau were to use the technology of one of the US bureaus.

Round Table

The culmination of this consultancy was a round table event wherein 11 bankers and other lenders attended and the following information was delivered:

- A summary of the evolution and the current status of Credit Bureaus in the US.
- Definition of a credit report and what are its components.
- Jordan's current legal environment as it relates to the establishment of a Credit Bureau.
- Summary of findings after visiting the major banks and other lenders.
- Potential model of a Credit Bureau in Jordan.

During the meeting it was suggested and accepted by the attendees that the minutes (Appendix 3) of the meeting be sent to the Bankers Association. The Bankers Association will use its best efforts to deliver a copy to a high government official.

The Next Step

Before the final feasibility study is started, a prefeasibility study should be conducted to determine the potential number of transactions, both consumer and commercial, that the credit bureau could reasonably expect on a monthly basis. This study should also attempt to determine the size of the initial database.

Parting Thought

Will US practices succeed in Jordan? I really can't say. I believe that the current cultural and political atmosphere is an impediment. But does that mean the US system is the only one that can succeed? No, you should pick and choose what is good for your

economy. I hope I have at least provided you with enough background and knowledge to go forward. If I can be of any further assistance while you pursue membership in the “buy now pay later club” please let me know.

Appendix 1
Schedule for Larry Ulrich
Sep. 27-Oct. 8

Meeting with:	Title	Company	Telephone	POM
(Chito), Terri Kristalsky and Jamil El-Wheidi	SMI Component Leader and Staff	AMIR		AMIR
Mr. Steve Wade	AMIR Director			AMIR
Dr. Salah Al Basheer	Lawyer and consultant (legal part of the Credit Bureau)		552-5127/8/9 m.: 575-771	AMIR
Mr. Jon Lindborg, and Jamal Jabiri for entry briefing		USAID		USAID
Mr. Amir Salti and Basel Bustami (attny)	Board Member Board Member	JMCC JMCC	569-2701 566-6410	AMIR
Dr. Ahmad A/Fattah,	Deputy Governor	Central Bank of Jordan	463-0301	CBOJ
Dr. Rajai Muasher Mr. Fuad Al Werr	Chairman of JNB Assistant General manager of Jordan National Bank.	JNB	562-2621 461-8204	AMIR
Mr. Mohammad Hamdan	Assistant General Manager	Bank of Jordan	569-6123	BOJ
Ms. Suha Tleel	Regional Manager	Cairo Amman Bank	465-3079	CAB
Mr. Awad Fadayel	Executive Manager	Housing Bank	560-7315	HB
Mr. Mufleh Akel	Regional Manager Deputy Chairman	Arab Bank Jordan Banker Association	560-7115	AB
Nasser Shreidah	<i>Coordinator, Small and Microenterprise Program, Social Productivity program</i>	<i>Ministry of Planning</i>	464-4466	MOP
Mr. S.K.Suleiman	Deputy General Manager	Industrial Development Bank	464--2216	IDB
Mr. Nimer Al Nabulsi	Director General	Agricultural Credit Cooperation	566-1105	ACC
Dr. Jamal Salah	Director General	Jordan Loan Guarantee Corp	461-3042	JLGC
Mr. Rafael Jabba, Qais Qatamin, Niveen Aboushi and Fuad Werr)	General Managers	MFI		AMIR

Appendix 2

Discussion Points

1. The role you envision a credit bureau serving in the country's current credit system.
2. The Type of credit bureau you envision; one with consumer data only, one with commercial data only, or one with both.
3. The type of information you want; negative data only, positive data only, or both.
4. The way to identify consumers; by name, address, or identification number.
5. The way you expect to receive credit information, oral, written, or electronically.
6. Types of accounts receivable (billing) systems in place; automated or manual systems.
7. The type of credit you extend today; credit card, mortgage, automobile/appliances, business to business, or personal credit line.
8. The legal/cultural/social barriers that exist (if any) to the exchange of data.
9. The way to provide credit experience to the credit bureau and how often, Monthly, quarterly, or other.
10. The way to determine the credit worthiness of the borrower today.
11. The kind of payment history that is kept today and in what form.
12. Procedures used today to bring the account current, (when an account is past due).
13. Role collection agencies currently play as part of the system today.
14. The way you envision starting the credit bureau database from scratch or converting current credit experience.

Appendix 3

Meeting Minutes

Subject: Round Table Discussion, Credit Bureau

Date: October 7, 1999

Place: Ayla Room - Intercontinental Hotel

Participants:

- **Bank of Jordan**
Mr. Mohammad Hamdan
- **Cairo Amman Bank**
Mr. Issam El-Muhtadi
- **Central Bank of Jordan**
Mr. Tayseer Smadi
- **Industrial Development Bank**
Mr. Sulieman Suliaman
Dr. Maher Waked
- **Jordan Islamic Bank**
Mr. Mohammad Hannoun
- **Jordan Micro Credit Company**
Mr. Basil Bostami
Mr. Amir Salti
- **Jordan National Bank**
Dr. Rajai Muasher
- **Jordanian Women's Development Society (JWDS)**
Ms. Niveen Abboushi
- **The Housing Bank**
Mr. Awad Fadayel

- **AMIR Consultant**
Mr. Larry Ulrich
- **AMIR Program**
Mr. Ignacito Alvizo
Ms. Hanadi Derhalli
Ms. Terri Kristalsky
Ms. Sameera Qadoura
Mr. Stephen Wade
- **International Business Legal Associates**
Ms. Rana Bin-Tarif
Mr. Robert J. Sheena
- **USAID**
Mr. Gerald Andersen
Ms. Rula Dababneh

Minutes were prepared by Ms. Hanadi Derhalli

Summary:

Mr. Larry Ulrich, gave brief description of a Credit Bureau (CB) in terms of:

- 1- History of CB reporting business in the USA.
- 2- What does a credit report typically contain
- 3- Mr. Ulrich further explained that there is special law for CB in the USA which regulates Who, What, When it is possible to request a CB report.
- 4- Finding in Jordan on CB. Following numerous meetings with local bankers, informal creditors and the Central Bank, the following consensus exists:
 - Legal coverage and limitations are of great concern.
 - Every one agreed and strongly encouraged establishing a CB.
 - It should include consumer (individuals) and commercial (companies) findings.
 - CB report should contain positive and negative data.
 - It should include house and private sector.
 - The identification should be based on using ID number as a key to get data on clients and registration number for commercial.
 - Support from government is needed to get the laws revised.
 - It is essential for economy to go forward (to retail banking) and to get manufacturing moving.
 - Having CB foundation will reduce the risk of lending.
- 5- Model of CB in Jordan. Also through the discussion with local practitioners, the possible model for a Jordanian CB was discussed and it was determined that:
 - **It should be private, with some sort of business arrangements with one of the three big vendors in the USA. In terms of technology, it does not make sense to reinvent what already exists.**
 - **It should be consumer and commercial.**
 - ID number should be used.
 - It should be located in Amman, with service centers in other larger communities.
 - It should provide marketing for this new service.
 - Building data base through credit granters who already have historical information on clients.

Ms. Rana Bin-Tarif, Talked about the legal part where she explained:

- 1- The legality of bank secrecy laws (there is no law about banks secrecy, it is left to common practice).
- 2- Exchange of information law, hardly there is anything about it between retailers, only article 37 of Central Bank of Jordan Law which is not clear, there is a legislative gap concerning the confidentiality of banks.

- 3- Law doesn't say anything of how banks to exchange information nor exchanging information in general.

Ms. Bin Tarif then explained that in her opinion, there should be special law prepared to regulate CB in Jordan and suggested the following to be considered:

- 1- The law should define whom to use the service and to make it legal for non-bankers.
- 2- It should regulate the government ability to access CB report.
- 3- The law should regulate for the misuse of CB report.
- 4- The law should regulate the type and amount of information to be released.
- 5- The law should regulate the cases that need client's approval.
- 6- The law should oblige banks to give the CB institution correct information.

Mr. Basil Bostami, stated that by law, only the Central Bank of Jordan can give Information on clients, and that it's not allowed to give any info on any person.

Dr. Rajai Muasher, addressed the following:

- The responsibility of the information provider should be clear.
- The quality of data and how it should be updated.
- How the data is to be given to clients.
- Law should address that Jordan can't support multiple CB companies

Action Items:

- 1- In depth market survey for data (contact person form was distributed to the participants and they were asked to complete it with the name of a person who have the authority to give data for the survey). This is essential as the success of the CB is directly related to the volume of use.
- 2- To have awareness program to introduce to customers what is CB.
- 3- To draft a special law to regulate CB to be given to the Bankers Association which should follow it up with the government.

At the end, Central Bank representative assured the group that it agrees with the idea of CB, and is willing to support it within limits.

Appendix 4

Market Research/Background Survey for the establishment of a Credit Bureau in Jordan Readings

- Reviewed various legal papers by Dr. Salah AlBashir's office regarding current laws, regulations, and policies concerning the exchange of credit or personal information with banks and other credit providers.
- 1996 Annual Report - Bank of Jordan.
- 1996 Annual Report - Jordan Islamic Bank
- 1996 Annual Report - Arab Bank Group
- 1997 Annual Report - Arab Bank Group
- 1998 Annual Report - Jordan Loan Guarantee Group
- Federal Reserve Chairman, Alan Greenspan's Remarks "Improving deficiencies in domestic banking systems in emerging markets will help to limit the toll of the next financial disturbance. The remarks highlighted the role credit will play in the future.
- Several brochures regarding the AMIR Microfinance project.